

6 June 1980

MEMORANDUM

SUBJECT: Overview of Portugal

1. The legislative election this fall and the later presidential contest are dominating the Portuguese political scene. At issue is whether the six-year-old socialist constitution produced by the 1974 revolution should be radically revamped or merely amended. Prime Minister Sa Carneiro--who took office last January when his conservative Democratic Alliance won a narrow majority in Parliament--favors stripping most socialist aspects from the constitution. This has set the Alliance on a collision course not only with Socialists and Communists (representing some 46 percent of the electorate), but also with President Eanes, a soldier whose political orientation appears to be slightly left of center. Eanes fears that Sa Carneiro's strategy would polarize the country. Because the President can veto constitutional changes that lack the support of two-thirds of Parliament, the Democratic Alliance is trying to unseat Eanes by backing General Soares Carneiro for President. It is too early for confident predictions, but the odds now favor another term both for Eanes and for the Democratic Alliance government. Such an outcome would prolong indefinitely the impasse between the executive and legislative branches.

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2. The battle of wills between Sa Carneiro and Eanes is currently concentrated largely in foreign policy. Their disputes, however, center more on who makes foreign policy than on any serious substantive differences. Both favor NATO and EC membership--though Sa Carneiro is more unabashedly pro-West, and Eanes is more inclined to emphasize a Portuguese role in Third World politics.

3. Relations with the US may be entering a new phase. The Portuguese government has strongly supported US initiatives on Iran and Afghanistan; it has continued to allow the US to use Lajes Air Base for controversial

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missions to the Middle East; and it seems disposed to expand US access to airbase facilities in Beja. In return, the Portuguese expect to be taken more seriously. Lisbon seeks a relationship in which its needs for military and economic assistance would be considered as profitable US investments in strengthening a valuable ally.

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4. Sa Carneiro has moved vigorously to reorient the economy from state control toward West European-style mixed capitalism. In an attempt to undercut the Communists' strong position in the south, the government is moving ahead with a program to distribute 500,000 acres of state-owned land to peasant families. In addition, the government has frozen subsidies to nationalized firms, which account for 60 percent of industrial production, and is seeking ways to provide incentives for private investment. In a move that promises to be a major campaign issue this fall, the leftist-dominated Revolutionary Council ruled that a law allowing private companies to compete in sectors now reserved to nationalized firms was unconstitutional. At the same time, the government has eased up on its tight economic policies. A less austere budget and looser controls on credit creations should allow GNP growth this year of about 2.5 percent; inflation is likely to exceed 25 percent. The current account, in small surplus last year, will register a deficit approaching \$1 billion, but foreign investment and loans will cover the gap with no problems.

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